

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 /120 W

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R 230944Z SEP 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 3525

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

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PASS TREASURY, LABOR AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: ECON, EFIN, ELAB, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF SEPT 18-24

1. SUMMARY: ROBUSTNESS OF JAPAN'S ECONOMIC RECOVERY IS CONFIRMED BY RECENTLY RELEASED STATISTICS. DEPARTMENT STORE SALES ARE UP IN AUG, PUBLIC CONSTRUCTION EXPENDITURES ROSE VERY SHARPLY IN JULY, AND EVEN LABOR MARKET CONDITIONS HAVE BEGUN TO RECORD SOME IMPROVEMENT. END SUMMARY.

2. DEPARTMENT STORE SALES (JEI 302) IN AUG ROSE 3.5 PERCENT ABOVE JULY LEVELS ON A SEASONALLY ADJUSTED BASIS. DESPITE THE INCREASE, HOWEVER, SALES DID NOT REGAIN THE HIGHER LEVEL REACHED IN JUNE. BOTH JUNE AND JULY FIGURES ARE SUBJECT TO PROBLEMS OF CORRECT SEASONAL ADJUSTMENT. NEVERTHELESS, THE AUG FIGURE IS 10.2 PERCENT ABOVE THE LEVEL OF AUG 1974 AND 6.3 PERCENT ABOVE THE AVERAGE FOR JAN-MARCH 1975.

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(INDEX, S.A) (PCT. CH. FROM PRIOR MO.)

MAY	223.7	4.0
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JUNE	235.0	5.1
JULY	225.2	-4.2
AUG	233.1	3.5

3. PUBLIC CONSTRUCTION EXPENDITURES (SEASONALLY ADJUSTED, JEI 164) ROSE VERY SHARPLY IN JUNE. EXPENDITURES TOTALLED 313.6 BIL YEN, A RISE OF 75.6 PERCENT FROM THE LEVEL RECORDED IN MAY AND WERE 16.2 PERCENT GREATER THAN THE AVERAGE MONTHLY EXPENDITURES OF THE JAN-MARCH 1975 PERIOD ON A SEASONALLY ADJUSTED BASIS. WITH WORK TO BEGIN SOON ON THE HONSHU SHIKOKU BRIDGES (SEE TOKYO A-400) AND NOTHERN EXTENSIONS OF HIGH SPEED RAILWAY LINES, PUBLIC CONSTRUCTION EXPENDITURES ARE EXPECTED TO SWELL RAPIDLY IN COMING MONTHS AND BE AN IMPORTANT STIMULUS TO RECOVERY FOR JAPAN'S HEAVY INDUSTRIES.

PUBLIC CONSTRUCTION EXPENDITURE (S.A.)

	(BILLION YEN)	(PCT. CH. FROM PRIOR MO.)
APRIL	2,881	9.9
MAY	1,786	-38.0
JUNE	3,136	75.6

4. JULY STATISTICS ON LABOR MARKET CONDITIONS BEGIN TO REFLECT JAPAN'S RECOVERY IN PRODUCTION. THE INDEX OF OVERTIME WORKED IN MANUFACTURING (JEI 401) AND THE RATIO OF NEW JOB OFFERS TO APPLICANTS (JEI 386) BOTH INCREASED FROM THE PRIOR MONTH WHILE THE UNEMPLOYMENT RATE (JEI 379) DECLINEX, ALL ON A SEASONALLY ADJUSTED BASIS. ON THE OTHER HAND, WHILE THE STATISTICS SHOW A BRIGHTER PICTURE THAN IN RECENT MONTHS, IT IS EVIDENT THAT CONSIDERABLE SLACKNESS IN THE LABOR MARKET REMAINS. THE UNEMPLOYMENT RATE OF 1.83 PERCENT IS THE SECOND HIGHEST MONTHLY RATE RECORDED IN THIS RECESSION. THE INDEX OF OVERTIME WORKED, WHILE THE HIGHEST LEVEL RECORDED THUS FAR IN 1975, REMAINS BELOW ALL OF LAST YEAR, WHEN IT AVERAGED 63.9. AS A SIGN OF RECOVERY, HOWEVER, IT SHOULD BE NOTED THAT A LEADING INDICATOR, THE INDEX OF OVERTIME WORKED, HAS RISEN SHARPLY IN THE PAST TWO MONTHS.

LABOR MARKET CONDITIONS

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(SEASONALLY ADJUSTED, PCT. CH. FROM PRIOR
MO. IN PARENTHESES)

	INDEX OF OVERTIME, MFG	NEW JOB OFFERS TO APPLICANTS	UNEMPLOYMENT RATE
MAY	43.5 (-0.3)	0.94	1.79 (0.04)
JUNE	45.8 (5.5)	0.96	1.89 (0.10)
JULY	49.1 (UMWL	1.01	1.83 (-0.32)

5. THE CONTRACTED (NOMINAL) INTEREST RATES ON COMMERCIAL BANK LOANS CONTINUED TO DECLINE IN AUG, BUT THE PACE OF

THE DOWNTREND EASED SLIGHTLY. THE AVERAGE CONTRACTED INTEREST RATE CHARGED TO CUSTOMERS BY MAJOR COMMERCIAL BANKS WAS 9.054 AT THE END OF AUG ACCORDING TO THE BANK OF JAPAN. THIS REPRESENTS A DECLINE OF 0.104 PERCENT FROM THE PRIOR MONTH LEVEL, IN CONTRAST TO DECLINES OF 0.147 PERCENT AND 0.126 PERCENT IN JUNE AND JULY RESPECTIVELY. CENTRAL BANK OFFICIALS ATTRIBUTED THE SLOWING RATE OF DECLINE IN PART TO A REDIRECTION IN LENDING AWAY FROM PRIME BORROWERS TO SMALLER FIRMS WHICH PAID HIGHER INTEREST CHARGES FOR LOANS. THE CUMULATIVE DECLINE IN BANK LOAN RATES BETWEEN APRIL AND AUG AMOUNTED TO 0.523 PERCENT, OR 35 PERCENT OF THE 1.5 PERCENT CUT IN THE OFFICIAL DISCOUNT RATE OVER THE PAST FIVE MONTHS.

6. FISCAL POLICY - TAX REVENUE SHORTFALL FOR CURRENT FISCAL YEAR 1975 WILL REACH NEARLY 3,900 BIL YEN (APPROXIMATELY \$13 BIL, MUCH LARGER THAN PRIOR PROJECTIONS, MOF REVEALED ON SEPT 19. THE GOVT REPORTEDLY PLANS TO ISSU ADDITIONAL PUBLIC BONDS OF APPROXIMATELY 3,500 BIL YEN TO FINANCE THE DEFICIT PROJECTED THIS YEAR, ON TOP OF 2,000 BIL YEN IN BONDS ANTICIPATED IN THE ORIGINAL BUDGET. ON SEPT 20, THREE CONTROVERSIAL PRICE-HIKE BILLS (FOR RAISING THE LIQUOR TAX, TOBACCO PRICES, AND POSTAL RATES) WERE INTRODUCED TO THE LOWER HOUSE, DSPITE STRONG OPOPOSITION PARTY CRITICISM. MOF INTENDS TO SUBMIT A REFLATIONARY" SUPPLEMENTARY BUDGET FOR THE CURRENT FISCAL YEAR 1975 AROUND OCT 10 AND HOPES TO GET DIET APPROVAL BY THE END OF OCT, BUT THE DATE IS STILL LIKELY TO CHANGE.

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LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 /120 W

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R 230944Z SEP 75

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7. ASST PROFESSOR KEIMEI KAIZUKA, AN EXPERT ON FISCAL POLICY AT TOKYO UNIVERSITY, CRITICIZES THE GOVT'S ANTI-RECESSION POLICY AS HAVING BEEN "INADEQUATE." WRITING FOR "THE JAPAN ECONOMIC JOURNAL" INTERNATIONAL WEEKLY, SEPT 23 ISSUE, PROFESSOR KAIZUKA SAID "THE FOURTH PACKAGE OF ANTI-RECESSION MEASURES WHICH THE GOVT IS STARTING AND THE COURSE OF ECONOMIC POLICY IT HAS PURSUED SO FAR ARE HARDLY CONSIDERED SATISFACTORY. . . WHEN PIECEMEAL MEASURES FAIL TO PROVE SUFFICIENTLY EFFECTIVE, THE GOVT IS LIABLE TO TAKE STEPS FOR ENCOURAGING ECONOMIC RECOVERY QUICKLY AND ALL AT ONCE. HOWEVER, SUCH A PROGRAM WILL MAKE UNSTABLE THE ECONOMY ALREADY ON A PATH TO RECOVERY. UNDER SUCH CIRCUMSTANCES, IT IS CONSIDERED INCUMBENT UPON THE GOVT TO TAKE UNFAILINGLY EFFECTIVE MEASURES BOLDLY AT THE START AND THEN CHANGE TO A NEUTRAL POLICY OF ECONOMIC MANAGEMENT."

8. MANY TOP COMPANIES WILL PASS THEIR DIVIDENDS DUR-
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ING THE FIRST HALF (APRIL-SEPT) INTERIM ACCOUNTING PERIOD THIS FISCAL YEAR. OF 482 CORPORATIONS LISTED ON THE TOKYO STOCK EXCHANGE AND ADOPTING THE INTERIM DIVIDEND SYSTEM, 200 FIRMS, OR 41 PERCENT, HAVE DECIDED TO FOREGO PAYING INTERIM DIVIDENDS FOR THE APRIL-SEPT PERIOD. A RECENT BUSINESS SURVEY BY THE "NIHON KEIZAI" NEWSPAPER INDICATES THAT ONE OUT OF EVERY FOUR COMPANIES WILL REGISTER PRE-TAX DEFICITS DURING THE FIRST HALF OF THE FISCAL YEAR ENDING SEPT 30.

9. NOMINAL YIELD OF TELEPHONE AND TELEGRAPH BONDS WILL BE LOWERED BY 0.2 PERCENT TO 8.6 PERCENT BEGINNING IN OCT ACCORDING TO THE MINISTRY OF POSTAL SERVICES. THE MOVE REFLECTS THE DECLINE IN THE EFFECTIVE YIELD OF THESE BONDS IN THE SECONDARY MARKET SINCE LAST YEAR. ALL NEW SUBSCRIBERS TO TELEPHONE SERVICE IN JAPAN ARE REQUIRED TO PURCHASE AT PAR TELEPHONE AND TELEGRAPH BONDS WHICH MATURE IN 8-10 YEARS. THESE BONDS ARE THEN USUALLY RESOLD AT A DISCOUNT TO FINANCIAL INTERMEDIARIES SEEKING LONG-TERM MARKETABLE SECURITIES. THE AVERAGE

EFFECTIVE YIELD IN THE SECONDARY MARKET, WHICH IS WIDELY
USED AS AN INDICATOR OF THE LONG-TERM MARKET RATE OF
INTEREST HERE, IS CURRENTLY 9.58 PERCENT COMPARED WITH
A RATE OF 11.1 PERCENT THIS PAST JAN.
HODGSON

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